

NCA

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VERA HIRSCHBERG

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HIGHER INTEREST RATES AND THE ECONOMY

ANNCR:

THE UNITED STATES FEDERAL RESERVE BOARD -- THE COUNTRY'S CENTRAL BANK -- HAS RAISED INTEREST RATES TO PROP UP THE DOLLAR AND ENCOURAGE FOREIGN INVESTMENT AND SAVING IN THE UNITED STATES. THE MOVE POSES A DILEMMA FOR POLICY-MAKERS CONCERNED ABOUT ECONOMIC GROWTH AND INFLATION AS WE HEAR IN THIS BACKGROUND REPORT BY VOA'S VERA HIRSCHBERG.

VOICE:

THE FEDERAL RESERVE BOARD, POPULARLY KNOWN AS THE FED, JEALOUSLY GUARDS ITS INDEPENDENCE FROM THE WHITE HOUSE IN TAILORING UNITED STATES MONETARY POLICY. IT SHUNS THE LIMELIGHT AS IT REGULATES THE NATION'S MONEY SUPPLY AND SETS INTEREST RATES. BUT IN RECENT WEEKS THE FED HAS BECOME THE FOCUS OF NATIONAL ATTENTION. FIRST CAME PRESIDENT CARTER'S ANNOUNCEMENT THAT HE WAS REPLACING THE FED'S LONG-TIME CHAIRMAN, ARTHUR BURNS. THEN CAME THE FED'S ANNOUNCEMENT, WITH THE UNITED STATES TREASURY DEPARTMENT, THAT THE UNITED STATES WOULD INTERVENE IN FOREIGN MONEY MARKETS TO HELP PROP UP THE SAGGING DOLLAR. AND FINALLY, ON JANUARY 6, CAME THE FED'S MOVE RAISING THE DISCOUNT RATE -- WHAT BANKS MUST PAY TO BORROW FROM IT -- FROM SIX TO SIX AND ONE-HALF PER CENT.

IN THE FED'S VIEW, THE DOLLAR'S SLIDE AND ACCOMPANYING DISORDER IN FOREIGN EXCHANGE MARKETS THREATENS THE ORDERLY EXPANSION OF BOTH THE AMERICAN AND THE INTERNATIONAL ECONOMY. RAISING INTEREST RATES, IT WAS FELT, WOULD HELP STRENGTHEN THE DOLLAR BY REINFORCING ABROAD WASHINGTON'S DETERMINATION TO FIGHT INFLATION AND ENCOURAGE FOREIGN INVESTMENT AND SAVINGS IN THE UNITED STATES.

BUT HIGHER INTEREST RATES COULD ALSO HAVE NEGATIVE EFFECTS ON THE AMERICAN ECONOMY. THEY COULD DISCOURAGE BUSINESS BORROWING FOR CAPITAL INVESTMENT PURPOSES AT A TIME WHEN THE ADMINISTRATION SAYS THAT BUSINESS SHOULD INCREASE ITS CAPITAL OUTLAYS TO STIMULATE THE ECONOMY. PRESIDENT CARTER MADE IT CLEAR AT A RECENT NEWS CONFERENCE THAT HE UNDERSTANDS THIS PROBLEM BUT INDICATED THAT HE ALSO UNDERSTOOD WHY THE FED HAD TO ACT. AS THE PRESIDENT EXPLAINED: "WE HAVE HERE A PROBLEM IN STABILIZING THE VALUE OF THE DOLLAR, WHICH IS THE BASIS FOR MOST INTERNATIONAL TRADE ON THE ONE HAND." THE OTHER SIDE OF THE PROBLEM, THE PRESIDENT SAID, IS TO PREVENT EXCESSIVE INFLATION, AND IN HIS WORDS: "STILL KEEP INTEREST RATES LOW ENOUGH TO ENCOURAGE BUSINESSES TO INVEST IN STOCK, TO ENCOURAGE THEM TO CREATE JOBS WITH EXPANSION AND TO MAKE SURE THAT WE HAVE AN ECONOMY THAT'S STABLE AND PREDICTABLE."

THE PRESIDENT WENT ON TO LINK THE LACK OF A UNITED STATES ENERGY PROGRAM WITH BOTH HIGHER INTEREST RATES AND BUSINESS UNCERTAINTY. HE SAID THAT UNTIL THE ENERGY QUESTION IS RESOLVED CONTINUED HUGE OIL IMPORTS AND TRADE DEFICITS WILL CONTRIBUTE TO THE DELETERIOUS EFFECTS OF INCREASING INTEREST RATES AND ALSO UNCERTAINTY IN THE STOCK MARKET.

MANY ANALYST BELIEVE THAT GOVERNMENT BORROWING TO FINANCE WHAT IS EXPECTED TO BE A HUGE SIXTY THOUSAND MILLION DOLLAR BUDGET DEFICIT WILL HELP TO PUSH CREDIT DEMANDS IN THE UNITED STATES HIGHER THAN EVER IN 1978. SHOULD INTEREST RATES RISE FURTHER, THEY SAY, MANY POTENTIAL BORROWERS WILL BE SQUEEZED OUT OF THE MARKET.

ON THE OTHER HAND, THE FED COULD INCREASE THE MONEY SUPPLY AND ALLOW INTEREST RATES TO DROP. BUT SUCH MOVES COULD, OF COURSE, FEED INFLATION. IT'S TOO EARLY TO TELL WHAT EFFECTS THE FED'S

MOST RECENT MOVE WILL HAVE ON THE DOLLAR'S POSITION INTERNATIONALL
AND ON FOREIGN INVESTMENTS IN THE UNITED STATES. BUT THE EXPERTS
ARE CLOSELY WATCHING THE FED'S MONETARY MOVES AND THEIR IMPACT
ON THE AMERICAN ECONOMY.

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